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Tanzania

Summary and Conclusion

- Tanzania provides an example of a country that has significantly improved revenue mobilization over the course of the last decade through sustained efforts to strengthen the tax administration, expand the scope of its responsibilities and operations and improve the control of exemptions.
- Over the 2001 to 2008 period, Tanzania increased tax revenue by 4.5 percent of GDP. However, total tax revenue remains low – e.g., 6 percent of GDP lower than Kenya's.
- Over the period, Tanzania's reform efforts primarily focused on a comprehensive strengthening of the administrative capabilities of the Tanzania Revenue Authority.
- Results for the 2008-09 fiscal year suggest that Tanzania's revenue effort from income taxes and VAT is broadly in-line with regional and income group comparator countries on average.
- Tanzania's income tax structure is similar to regional and income group comparator countries and the VAT rate is higher than these comparator group countries on average.
- Personal income tax and VAT productivity measures are broadly in line with regional and income group comparator countries while corporate income tax productivity is below these comparator countries -- reflecting high exemptions and incentives.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2008, Tanzania increased tax revenue by 4.5 percent of GDP with improved revenue effort from all major revenue sources.

- Income tax revenue effort increased 2.1 percent of GDP over the period.
- Revenue effort from taxes on goods and services increased by 1 percent of GDP.
- Revenue effort from taxes on international trade increased by 1.4 percent of GDP.

Tanzania Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008
Taxes on Income & Profits	2.4%	2.5%	2.6%	2.9%	3.2%	3.6%	4.1%	4.5%
Taxes on Goods and Services	4.3%	4.3%	4.4%	4.5%	5.2%	5.4%	5.1%	5.3%
Taxes on International Trade	2.5%	2.4%	2.2%	2.3%	2.0%	2.1%	3.2%	3.9%
Other Taxes	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%
Total Tax Revenue	9.5%	9.4%	9.5%	9.9%	10.5%	11.3%	12.5%	14.0%

Source: Tanzania Revenue Authority

Summary of Reforms

Over the 2001 to 2010 period, Tanzania sustained a continuous process of strengthening the Tanzania Revenue Authority, supported by technical Assistance from the IMF and the World Bank. In 2001, the Tanzania Revenue Authority created the Large Taxpayer Department. With the adoption of the TRA Corporate Plan in 2003, the TRA undertook a comprehensive reorganization and streamlining of tax administration, including computerization and training, supported by World Bank and bilateral donors. Efforts included creation of a Large Taxpayer Unit, improved organization along functional lines, measures to control exemptions, increased taxpayer registration, strengthened audit and enforcement capacity, expanded electronic filing and improved ICT systems. The TRA assumed responsibility for local property tax administration in 2008.

In 2006, Tanzania improved customs administration through improved post clearance audit, risk management and intelligence, and implementation of ASYCUDA ++. Streamlined customs processes and controls were adopted in 2008.

Over the period, Tanzania undertook some reforms of tax policy and legislation. The main reforms included the adoption of a new Income Tax Act with a reduction of the number of personal income tax brackets, a lowering of the top marginal rate from 35% to 30% and aligned with the CIT rate, and an increase in the personal income tax exemption. Other reforms included improved administrative and enforcement authorities including rationalization of small taxpayer administration, the introduction of self-assessment, improved presumptive taxation for small businesses, reinstatement of capital gains taxation, introduction of a minimum tax on tax loss companies, and reduced VAT privileges and exemptions for non-profits, repeal of the Stamp tax, an increase in the VAT threshold and adoption of the East African Customs Community Management Act.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Tanzania's tax system and compare Tanzania with Sub-Saharan Africa, other low-income countries, and the rest of the world.

Revenue Performance

- Tanzania's revenue effort from personal income tax is in-line with Sub-Saharan comparator countries and above that of the average of low-income economies.
- Corporate income tax revenue effort is below that of regional, income group and world averages.
- The revenue effort from VAT is broadly in-line with that of regional and income group averages but about 2/3 of the world average.

Tax Structure

- Tanzania's corporate income tax rate, at 30 percent, is similar to regional and income group averages but above the world average, at 25.3 percent.
- The maximum PIT rate in Tanzania, at 30 percent, is in-line with income group and world averages but below that of the regional average, at 35.2 percent.
- The VAT rate, at 20 percent, is above regional, income group and world averages, which are in the 15 to 16 percent range.

Revenue Productivity

- Corporate income tax productivity, at 0.06 percent of GDP of revenue for each percentage point of tax rate, is below regional and income group averages, at 0.10 and below that of the world average, at 0.14. Weak corporate tax productivity reflects in part exemptions and tax incentives that are narrowing the tax base.
- Personal income tax productivity is broadly in line with regional and income group averages.
- Similarly, VAT productivity is modestly below regional and income group averages but the VAT gross compliance ratio is about ¾ of regional and income group comparator country averages.

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Tanzanian business taxpayers "expected to give gifts in meeting with tax officials" is 14.70 percent which is below the regional average of 18.06 percent and the world average of 16.73.
- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Tanzania amounted to 172 hours per year in early 2010 – significantly lower than the average of 315 hours for other Sub-Saharan Africa region countries but unchanged from that estimated for Tanzania in 2006.

ANNEX: Tanzania's Collecting Taxes Indicators

Company Income Tax	CITR Tax Rate	CITY Revenue as % GDP	CITPROD Revenue Productivity
Tanzania	30.00	1.70	0.06
Sub-Saharan Africa	30.27	2.65	0.10
Low Income Economies	28.20	2.12	0.10
World	25.32	3.33	0.14

Income Taxes on People	PITMINR Minimum Tax Rate	PITMINL Minimum Income Level (Multiples of GDP _{pc})	PITMAXR Maximum Tax Rate	PITMAXL Maximum Income Level (Multiples of GDP _{pc})
Tanzania	15.00	2.11	30.00	15.20
Sub-Saharan Africa	10.11	2.55	35.21	19.11
Low Income Economies	9.52	3.00	30.95	25.33
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY Revenue as % GDP	PITPROD Revenue Productivity	SSR Mandatory Combined Social Contribution Rates	WEDGE Combined Rate of Personal and Labors Taxation
Tanzania	2.40	0.09	20.00	20.00
Sub-Saharan Africa	2.60	0.08	9.97	12.20
Low Income Economies	2.02	0.07	11.80	13.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR VAT rate	VATY Revenue as % GDP	VATGGR Gross Compliance	VATPROD Revenue Productivity	THRESHOLD Mandatory Registration/ Filing (annual Turnover in
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Ratio					USD)
Tanzania	20.00	4.60	35.20	0.23	32,000.00
Sub-Saharan Africa	15.91	4.31	41.42	0.28	54,441.74
Low Income Economies	15.12	4.51	40.02	0.29	49,103.00
World	15.77	6.33	63.11	0.41	40,552.18